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PROBABLE DEVELOPMENTS IN VIETNAM TO JULY 1956

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 11 October 1955. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, G-2, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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SECRET

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ASSISTANT DIRECTOR, ONE

PROBABLE DEVELOPMENTS IN VIETNAM TO JULY 1956

THE PROBLEM

To estimate the prospects for the development of a Vietnamese government with the capability to defend itself against internal subversion and uprisings and with sufficient authority and administrative ability to deal adequately with the many problems facing it, including those posed by the Geneva Agreements.

CONCLUSIONS

1. Since he became Premier in July 1954, Ngo Dinh Diem has made considerable progress toward establishing the first fully independent Vietnamese government. Nevertheless, the capability of the South Vietnamese to develop an effective government which can survive during the next few years is still in doubt. *(Paras. 9, 12)*

2. Assuming Diem survives and provided he continues to receive wholehearted US support, we believe he will probably be able to cope with non-Communist dissident elements and to remain in office during the period of this estimate. Moreover, providing the Communists do not exercise their capabilities to attack across the 17th Parallel or to initiate large-scale guerrilla warfare in South Vietnam, Diem will probably make further progress in developing a more effective government. *(Para. 54)*

3. Diem will almost certainly not agree to hold national elections for the unification of Vietnam by July 1956. Although Diem, under pressure from the Western Powers, might reluctantly agree to indirect consultations with the DRV concerning elections, he would insist on conditions which he felt certain the Communists would be unable to accept. Aware that such a position will probably cause the Viet Minh to increase their efforts to destroy his government, Diem will probably seek to bind the US more specifically to the defense of Vietnam. *(Para. 49)*

4. The Viet Minh, despite their relative quiescence, present the greatest potential threat to Diem. Should the Viet Minh elect openly to invade the south with regular forces, they are capable of defeating the VNA and any French forces (if committed) now present in South Vietnam. Moreover, with an estimated 10,000 military personnel in South Vietnam, the Viet Minh have the capability to undertake local sabotage and terrorist actions, and small-scale but widespread guerrilla warfare. The Viet Minh can reinforce these forces by infiltrating into South Vietnam. The Viet Minh apparently exerts political influence in many areas scattered throughout South Vietnam. *(Paras. 24, 27–29)*

5. We believe that the Viet Minh, at least until July 1956, will probably continue to concentrate primarily on a "political struggle" designed on the one hand to exert pressure for implementation of the Geneva Agreements and on the other to bring to power in the south political personalities amenable to coalition government with the Viet Minh. Their tactics will probably be to maintain and increase their influence in the villages, hamper government administration, discredit Diem and the government, to subvert the command elements in the VNA, and to infiltrate and incite dissident groups — particularly elements of the sects — to oppose the government. *(Para. 31)*

6. However, the Communists probably estimate that unless they effectively challenge the position of the Diem government the latter will gradually strengthen and stabilize its position. They might decide, despite the presence of the International Control Commission, to initiate small-scale but widespread guerrilla warfare in the south, provided such action was consistent with over-all Bloc policies and provided they estimate that such action would not provoke Manila Pact counteractions. *(Para. 30)*

7. Should the Viet Minh initiate large-scale guerrilla operations supported by substantial infiltration from the north, the South Vietnamese government would be hard pressed to do more than maintain control in the Saigon-Cholon area and in a few other major urban centers. If the operation were prolonged, the government probably could not survive without military assistance from outside. *(Para. 36)*

8. While the French will continue to seek to salvage as much as possible of French commercial and cultural interests, we believe French interests and influence in South Vietnam will progressively decline during the period of this estimate. Except for training personnel, possible air and naval bases, and perhaps some token forces, the French will have withdrawn the bulk of the FEC by July 1956. French forces remaining in South Vietnam will almost certainly not be committed against the Viet Minh, except in self-defense or possibly as part of a multilateral Western action. *(Paras. 40, 51)*

DISCUSSION

I. INTRODUCTION

9. When Ngo Dinh Diem was appointed Premier by Chief of State Bao Dai in July 1954, he faced a basically unstable and deteriorating situation. In the area under the administration of the Vietnamese government, the population of some 12 million was war-weary, lacked a sense of identification with the National government, and was divided by regional loyalties and religious opinion. Their principal concern was to better their economic position and preserve their newly-found peace. The most significant articulate political sentiment of the bulk of the population was an antipathy for the French combined with a personal regard for Ho Chi Minh as the symbol of Vietnamese Nationalism. The small educated minority who were concerned with national politics, were primarily power seeking opportunists. The existence of armed politico-religious sects contributed to the difficulties of establishing central government authority throughout South Vietnam. Many French were still trying to preserve their

vested interest in the economic and political life of the country and the French government feared that the establishment of an effective anti-Communist government in the south might involve French forces in renewed fighting with the Viet Minh. The prospects were made even darker by the ease with which the Viet Minh appeared to be consolidating its control of the north.

10. In this situation Diem was forced to move slowly. Although possessing considerable national prestige as a patriot, he was inexperienced in administration and was confronted at the outset by the intrigues of Bao Dai and other self-interested individuals and groups, who in many cases benefited from French support. Moreover, the loyalty of the army to the central government was in doubt and General Hinh, its Chief of Staff who also held a commission in the French Air Force, was openly maneuvering for political power. The national police and security services were commanded by Bay Vien, the leader of the Binh Xuyen gang who had bought them from Bao Dai in April 1954 and who was hostile to Diem. Finally, Diem was handicapped by a lack of trained administrators at the national and provincial levels.

11. In the difficult and confused situation confronting the national government, Diem concentrated on eliminating or neutralizing the most important groups and individuals challenging the authority of his government. He successively excluded General Hinh and Bao Dai from the political scene, won the support of the army, and established the independence of his government from French influence. By bribery, persuasion, and finally force, Diem virtually eliminated the Binh Xuyen and the most important elements of the Hoa Hao sects as threats to his authority. At the same time, he maneuvered the Cao Dai — the strongest of the sects — into an uneasy alliance. As a result of these successful actions, Diem gained prestige and increased popularity as a symbol of Vietnamese independence.

12. Nevertheless, the success of Diem's efforts to establish a viable anti-Communist government in South Vietnam is still in doubt. Although Diem has established control over the apparatus of government, he has dealt only in part with such fundamental problems as: (a) the development of an effective administration, particularly on provincial and local levels; (b) the institution of a popularly-sanctioned constitutional basis for the regime; (c) the elimination of armed opposition and the extension of government authority throughout all areas of South Vietnam; (d) the suppression of Viet Minh military and political capabilities remaining in South Vietnam; and (e) the restoration of the economy.

II. THE INTERNAL POLITICAL AND SECURITY SITUATION

The Diem Government

13. At present, Diem's greatest assets are his reputation for honesty and unsullied nationalism, his control of the Vietnamese National Army, and the moral and financial support of the US. In addition, Diem has gained considerable popular following, especially in urban centers and in recently pacified areas and has the loyalty of the refugees from North Vietnam. However, should he lose army or US support, his regime would probably collapse.

14. Diem also has the sympathy and in many instances the active support of the estimated 1,000,000 Catholics in South Vietnam (including about 500,000 Catholic refugees from the north), who represent an anti-Communist core with considerable political potential. However, in order to avoid aggravating the religious issue, Diem, a Catholic, has been careful not to appear to champion the Catholic cause.

15. Diem is still in the early stages of organizing a political machine. His cabinet is composed primarily of loyal technicians who lack political stature, Most well known political figures of the pre-Diem period have been alienated by Diem's unwillingness to trust them and by his insistence that unquestioned acceptance of his leadership is the only basis for cooperation. Diem has depended heavily

on his unpopular brothers for advice and entrusts them with positions of great responsibility. His tendency toward "one man rule," his dependence on his brothers for advice, and his rejection of Vietnamese leaders whom he does not trust, has denied his government many of the few trained administrators.

16. Although Diem has established firm control over the army and security forces, he has not established internal security. This fact, coupled with his failure to organize his government effectively, has been largely responsible for the delay in the implementation of promised reforms in government procedure and agrarian policies. Projects for agricultural development and land reform, under the guidance of US advisors, are still largely in the planning stage. Even with US assistance and its own best efforts, the Diem government has completed only about 47,000 housing units accommodating approximately 40 percent of the 650,000 refugees from the north. Diem has made some progress in increasing the number of villages under the administrative guidance of the central government. Civic action teams, composed of representatives of the various ministries, have been trained and sent out to villages in about 10 provinces.

17. Diem has made a considerable effort to galvanize mass popular support behind his program. Initially, he concentrated on exploiting popular antipathy for Bao Dai and the French; more recently he has sought to develop strong anti-Communist sentiment. Although there have been instances of uncontrolled manifestation of popular anger and xenophobia, Diem has on the whole succeeded in keeping popular passions within bounds.

18. Diem and his advisors are currently planning a three-phase program to obtain a popular mandate for his regime and eventually to form a representative assembly in South Vietnam: (a) an early referendum for a simple public choice between Diem and Bao Dai as Chief of State; (b) a referendum on a new constitution coupled with elections at the communal and municipal levels; and (c) elections by the end of 1955 for a national assembly with limited powers. To what extent this process will be carried through will depend largely on Diem's judgment as to his own appeal in the south and the extent of Communist influence. The formation of a representative body may be delayed into 1956.

Non-Communist Opposition

19. The Cao Dai, the most powerful of the sects, aspires to political control of South Vietnam and is potentially Diem's most important non-Communist opposition. It controls a sizeable rural area and has a relatively cohesive religious following of some 1,500,000 Vietnamese, including a trained army of about 15,000. While the Cao Dai spiritual leader, Pope Pham Cong Tac, has cooperated with other sect leaders opposing Diem, most Cao Dai military leaders have supported Diem. General Phuong, the Commander-in-Chief of Cao Dai forces and probably the sect's most influential political leader, has entered into an agreement with the government to integrate the bulk of his troops into the VNA and to disband the remainder. However, Phuong has continued to intrigue to obtain better terms and the agreement still has not been fully implemented.

20. During the spring and summer of 1955, the Cao Dai sought to become the major political force in South Vietnam by attempting to capture control of the Revolutionary Committee (RC). This committee was formed during the spring of 1955 at the time of the Binh Xuyen crisis. It resulted from a merger of followers of Diem's brother Nhu, Cao Dai generals The and Phuong, and Hoa Hao General Ngo, all of whom sought to use the force of nationalism to serve their own political ends. It is likely that much of the extreme nationalist activity of the Committee during April and May of 1955 reflected Cao Dai efforts to undercut Diem and to give the RC the political initiative. However, Diem's supporters have thwarted Cao Dai efforts.

21. During the period of this estimate, integration of Cao Dai forces into the VNA will

probably continue. This process may be marked by considerable political jockeying and some local armed flare-ups may occur. Because Phuong and other Cao Dai leaders lack popular support, we do not believe they will elect to resist Diem by force. Should they adopt such a course, we believe they would not pose a major threat to the continued existence of the government. However, the effort to suppress their forces would disrupt army training and divert attention from other critical tasks including the suppression of the Communists.

22. Although the Binh Xuyen and some elements of the Hoa Hao sect still retain the power to wage guerrilla warfare in limited areas, the government by force and bribery has drastically reduced the potential of these groups to challenge its authority. The following is the disposition of the four principal forces of the Hoa Hao: Ba Cut's unit is believed to be reduced to about 1,000, who are scattered and in hiding after evading VNA encirclement; Soai's group has been badly disorganized as a result of VNA operations and probably does not now total more than 1,500; Nguyen's force of some 2,500, though ostensibly rallied to the government, is in fact neutral; and Ngo's unit of some 3,000 is cooperating with the government. The Binh Xuyen have probably ceased to be an effective force following the recent VNA operation against their swamp hideout. However, the remaining forces of Bay Vien, Ba Cut, and perhaps Soai will probably continue to oppose the government during the period of this estimate and may be tempted to cooperate with the Viet Minh.

23. Most of the other political groupings are opposed to Diem and are composed primarily of intellectuals and political opportunists. They have little popular following. While these groups will continue to maneuver for position in an effort to secure power, we believe the majority will gradually come to terms with Diem as they become convinced that he cannot be removed by political maneuvers.

Communist Opposition

24. The Communists pose the ultimate threat to the independence of South Vietnam. The Communist regime in North Vietnam possesses a far stronger army, a more experienced administration, greater cohesion of leadership, and greater drive than the government of South Vietnam. However, we do not believe there will be a direct test of military and political strengths during the period of this estimate. Considerations of over-all bloc strategy and apprehension concerning possible US intervention will almost certainly prevent an open Viet Minh attack. On the other hand, Premier Diem will almost certainly not agree to a test of relative popular strengths in national elections.

25. The struggle, therefore, will be indirect. On the Viet Minh side it will be carried out by their agents now in South Vietnam, by the combined resources of Bloc diplomatic and propaganda facilities, and possibly by troops infiltrated across the 17th Parallel.

26. Since the cease-fire and the subsequent evacuation of most Viet Minh military units to the north, the Communists in South Vietnam have concentrated on methods of "political struggle" designed on the one hand to exert pressure for nationwide elections according to the Geneva Agreements, and on the other to infiltrate and subvert the institutions of Free Vietnam with a view to bringing to power in the south political personalities who would be amenable to a coalition government with the north.

27. We have little intelligence on Viet Minh strength, activities, and intentions in South Vietnam. We estimate, however, that in South Vietnam there are about 10,000 armed Viet Minh military personnel in addition to an unknown number of political cadres and several Communist front groups. Military personnel are probably organized as skeletal units. Unit locations are not fully known, nor is the identity of their leaders. However, the strongest groups and most extensive activity appear to be centered in the coastal mountains of Southern Annam, the interior moun-

tains of Central Annam, the Plaine des Joncs area adjacent to Cambodia and the Laotian borders, and in the Ca Mau region of Cochin-China. These elements are probably engaged in intelligence activity, organizational and training functions, and in protecting local headquarters and base areas. They are also probably encouraging and perhaps assisting those Binh Xuyen and Hoa Hao forces in continued opposition to the government. Available information indicates that the Viet Minh in South Vietnam retain a continued capability for armed action and for a campaign of mass intimidation, assassination, sabotage, and terrorism.

28. The Viet Minh probably exercises effective political control only in areas which are underpopulated and in which the government has made no attempt to establish its own administration. These include pockets in the plateau and foothill areas of South-Central Vietnam, the Camau peninsula in the extreme southern part of Vietnam, and the Plaine des Joncs in Cochin-China. The Viet Minh also probably exerts influence in rural areas where government administration is present but still ineffective. In urban areas where national government control is greatest, the Viet Minh are working primarily through front organizations, such as labor unions, social service, and "peace" groups.

29. There appears to be little Communist infiltration in the higher echelons of the Vietnamese National government or the army, but there are indications of fairly extensive penetration of lower units of the administration, possibly including regional and provincial governments, and almost certainly the village councils. With respect to the South Vietnam politico-religious sects, recent information from Vietnamese sources suggests growing and probably successful Communist efforts to penetrate the factions of these sects which remain hostile and in armed opposition to the government.

30. The Communists are confronted with a serious dilemma in their campaign to establish Viet Minh control over South Vietnam. They probably estimate that unless they effectively challenge the position of the Diem government the latter will gradually strengthen and stabilize its position. Moreover, they have probably concluded that Diem will not agree to elections or unification schemes which would favor the Communists. Under these circumstances the chances for a Communist take-over of the south by means short of open force might decline. On the other hand, the Communists also probably realize that the use of force against South Vietnam — either through open invasion or by infiltrating sufficient troops across the 17th Parallel to insure a successful "liberation" — would jeopardize current Bloc peace policies and risk provoking US intervention. In addition, the Communists may not presently have sufficient strength in South Vietnam quickly to overthrow the Diem government and may therefore estimate that to undertake widespread guerrilla warfare without substantial infiltration from the north might lead not only to the weakening of their exposed organization in the south but also to a drastic loss of public support.

31. We believe that until July 1956 the Communists will follow a course of action which is primarily political. They did not seize upon the crisis of last spring to initiate guerrilla warfare and their propaganda pronouncements from Hanoi appear to direct their followers in the south to continue their political actions. Their objective appears to be the preservation of their pose as the defenders of Vietnamese unity and independence and as the supporters of the provisions of the Geneva Accords. In the south, they will probably work in both the villages and urban centers to exploit local grievances, to hamper and sabotage government administration and reform, to subvert the command elements in the VNA, to discredit Diem as a nationalist, to encourage dissident groups in armed opposition against the government, and to increase support for plausible Communist proposals for unification. By these measures, which may involve terrorism and violence short of concerted guerrilla action, the Viet Minh could seriously hamper government efforts to administer the rural areas. They would prob-

ably hope by this tactic to force a change in the government of South Vietnam or to develop widespread antipathy toward Diem.

32. However, the Communists might, despite the presence of the ICC, decide to initiate small-scale but widespread guerrilla warfare in the south, provided such action was consistent with over-all Bloc policies and provided they estimate that such action would not provoke US counteraction. The Communists presumably would be less fearful of US intervention if they believed that they could conduct successful guerrilla operations with sufficient support from the south to make unnecessary obvious and extensive support from the north.

III. VIETNAMESE MILITARY AND SECURITY SERVICES

33. The Vietnamese National Army (VNA) has an estimated strength of 147,000, exclusive of some 8,000–10,000 sect forces in the process of integration. The VNA is composed of 159 combat battalions, including 148 infantry-type, 2 armored, and 9 artillery battalions. As a result of recent reorganization most of the battalions have been regrouped to form 4 field infantry divisions; 6 light infantry divisions; 13 territorial regiments; and 3 independent infantry regiments. The remainder of the battalions are independent. The larger elements generally are still in the formative stage, and are not yet operational. The Vietnamese government hopes to increase the VNA to a strength of 200,000, whereas current US-approved force levels, including air and naval forces, call for a total strength of about 150,000 by July 1956.

34. In recent operations against sect forces, the VNA displayed major weaknesses in staff work, particularly in logistics, and the tactical control of units was poor. Since October 1954, several key VNA officers have been purged, and much of the present army leadership is new. Time will be required for the new team to "grow" into their positions, but with experience and the scheduled training of VNA officers in US service schools, the army leadership should improve gradually.

35. The morale of the VNA has risen sharply as a result of its operations against the Hoa Hao and Binh Xuyen dissidents. This factor, together with the halt in demobilization and the firm nationalist stand of the government against the French, has given the VNA a new sense of independence and confidence.

36. Despite the VNA's lack of experience and training, it probably has the capability of maintaining the government in power against potential armed opposition now located south of the 17th Parallel, and of maintaining control of major urban centers and lines of communication. Should the Viet Minh initiate a major guerrilla operation supported by substantial infiltration from the north during the period of this estimate, the government would be hard pressed to do more than maintain control of Saigon-Cholon and a few other major urban centers. If the operation was prolonged, the South Vietnamese government probably could not survive without military assistance from outside. Provided US assistance is continued, and conditions permit the implementation of planned reorganization and training programs, the VNA in another two years should be able to maintain a large measure of internal security even in the event of considerable infiltration of guerrillas from the north. Moreover, against external aggression, it should be able at that time, with outside naval and air support, to provide a 60 day delay in withdrawing to the general vicinity of Ban Me Thuot – Dalat – Nha Trang, and to conduct a defense for some months of the Saigon-Cap St. Jacques area.

37. Vietnam has a small air force with an over-all personnel strength of about 3,000 (including 78 trained officer and enlisted pilots, 90 pilot trainees, and approximately 1,100 other skilled and semi-skilled personnel), and an aircraft strength of about 100 liaison/training and transport types. The Vietnam Air Force (VNAF) has minor capabilities for performing artillery observation, target spotting, battle area liaison, and air evacuation missions. No significant increase in VNAF capabilities is expected during the period of this estimate although a larger and more effective VNAF is planned for the next 2–3 years. Any

substantial increase in air force capabilities will depend primarily upon the training and re-equipment programs of the US sponsored Training Relations Instruction Mission (TRIM) and MAAG.

38. The Vietnam Navy is under operational control of the Chief of Staff of the VNA and under the administrative command of a senior naval officer. Its naval component consists of 1,618 men, with a Coast Guard of 82 men and a Marine Corps of 2,470 men. In addition, 550 Vietnamese serve with the French Naval Forces, Far East, on a contractual basis. The naval component possesses 1 submarine chaser (PC), 3 coastal minesweepers (MSC(O)), 7 amphibious vessels (1 LSSL, 2 LSIL, 4 LCU), and 49 smaller amphibious and patrol craft. The Vietnamese Navy has limited effectiveness, but is capable of undertaking river patrol, and minor coastal and amphibious operations. Both the navy and marines depend upon foreign logistic support, and will require considerable additional training before they can perform effectively.

39. The Vietnamese National Police, under new and apparently more effective leadership, consists of about 4,500 men, at least half of whom are in the Saigon-Cholon area. Considerable improvement in the morale, equipment, and effectiveness of these forces is likely during the period of this estimate. A Civil Guard is currently being organized through a merger of former provincial guards, local militia, and suppletif elements under the central direction of the Minister of Interior. This organization with an estimated 65,000 men still lacks cohesion, skills, and necessary equipment. Of these, 25,000 will be trained under a US program now being instituted.

40. The French Expeditionary Corps (FEC) has been reduced to a strength of about 45,000, because of concern for the North African situation, a general loss of interest in South Vietnam, and Vietnamese pressures. Negotiations are now proceeding between South Vietnam and France concerning the future role and status of the French military in South Vietnam. Unless the Vietnamese demand the withdrawal of all French forces, the French may continue to maintain some token forces in South Vietnam. In particular, the French will probably seek to retain naval and air bases in South Vietnam. The principal missions of the FEC at the present time are to protect the ICC in Vietnam and French nationals and property. Only some token forces now remain in the vicinity of the 17th Parallel. The FEC will almost certainly not be committed against the Viet Minh, except to protect itself or as part of a multilateral Western action. The French will continue to provide training facilities for VNA personnel in France and will also probably continue to participate, although reluctantly, with the US in training the VNA in Vietnam. In addition, the French will probably complete the turnover of depots and installations to the VNA.

IV. ECONOMIC

41. Vietnam's economic position has not improved in the past year. Formidable basic economic problems still confront the government. The country is dependent on foreign aid to finance imports and the defense budget. Acreage under cultivation is still far below prewar levels and the position of the peasant needs to be improved. There are also serious immediate problems. Despite adequate production of rice for domestic consumption, distribution and marketing difficulties have forced a dramatic rise in the price of this commodity in the large urban centers. Unemployment is rising as a result of the closing of the French enterprises and military installations and is aggravated by the demobilization of VNA and sect armed forces. These problems may come to have significant political effects and add to instability in the months to come.

42. Rice output, Vietnam's principal resource, is roughly 2,100,000 metric tons for the current crop year, representing virtually no gain over recent years and little more than half of pre-World War II production. This level should provide a small export surplus of 150,-

000 to 200,000 metric tons. The dislocations of war and the continued lack of security in many rural areas have left one-third of the prewar rice acreage uncultivated. Rice, rubber, and other exports earn $94,000,000 a year, which pays roughly for only one-third of South Vietnam's imports. US aid is now the major source of foreign exchange for the area.

43. Local resources are expected to cover about 30 percent of the estimated 1955 national budget of $521,000,000. US military and economic assistance is programmed at about $325,000,000 which will cover most of the balance. The French now provide only about $34,000,000 in foreign aid and this will probably diminish as their military forces are withdrawn.

44. France continues to be the chief source of imports and French capital still controls the bulk of manufacturing and plantation agriculture. However, Franco-Vietnamese economic ties are weakening because of mutual mistrust and suspicion and the shift to direct US dollar aid. Vietnam's Foreign Exchange Office has limited franc imports and has curtailed the flow of remittances to France. The new Vietnamese tariff schedule continues the traditional preferential rates for France, but at sharply reduced levels. Under these conditions, French enterprises will curtail the scale of their operations and general trade relations between France and South Vietnam will not improve.

45. Vietnam is also losing its traditional trade within Indochina. Cambodia, which formerly used the port of Saigon to channel its imports and exports, is becoming increasingly oriented toward Thailand as the result of new rail and ferry facilities. Moreover, trade with Cambodia has been curtailed since the dissolution of the Indochinese customs and monetary unions at the end of 1954. Relations between these countries have also been troubled by the failure of South Vietnam to turn over Cambodia's full share of the custom receipts collected by the Indochinese customs. Traditional trade with North Vietnam has also been disrupted primarily because of Vietnam's self-imposed restrictions.

46. Improvement in economic conditions in South Vietnam will depend largely on the success of government efforts to deal with such problems as unemployment, land tenure, rural credit, currency reform, foreign commercial relations, and the recreation of a rice surplus for export. The Diem government has recently established a new central bank, initiated independent control over foreign exchange resources, and undertaken developmental planning. The government probably will be successful in permanently settling sizeable numbers of refugees, in initiating effective import policies, and in regularizing its trading relations with Cambodia and Laos. However, institutional reforms and other programs designed to alleviate the economic situation will not pass beyond preliminary stages during the period of this estimate.

47. Despite economic stagnation in Vietnam, the situation is unlikely to become critical so long as US aid continues. On the other hand, there is little prospect of sufficient improvement in economic conditions to provide a strong stimulus to popular support for the government.

V. EXTERNAL FACTORS

48. Recognizing that his regime is dependent on US aid and support, Diem will probably continue to follow a foreign policy marked by cooperation with the US. At the same time, Diem's foreign policies will bear the mark of strong independence of action, and may frequently lead him to misunderstandings with his closest allies. Diem will continue to urge the development of effective defense mechanisms under the Manila Pact, while seeking diplomatic support through wider recognition of his government, particularly in Asia.

49. In stubbornly refusing to recognize or adhere to the terms of the Geneva Agreements, Diem has shown little sensitivity to world opinion. He is probably concerned by Indian, British, and French pressures, with which the US has been to some degree associated, to hold election consultations and publicly declare his cooperation with the ICC. But he is fearful of the possible effect that consultations might have on public opinion and on his public sup-

port. He clearly believes that any recognition of the DRV as a "government" in the north would have adverse political consequences. Consequently, although Diem will attempt to moderate the disfavor of the ICC and the Geneva powers, he will probably continue to resist external pressures to hold consultations. However, under pressure from the Western Powers and Asian neutralists, Diem might reluctantly agree to some form of indirect consultations, but in such circumstances he would vigorously press for conditions which he felt certain the Communists would be unable to accept. Aware that his position will probably cause the Viet Minh to increase their efforts to destroy his government, Diem will probably seek to bind the US more specifically to the defense of Vietnam.

50. Because he recognizes that the continued presence of the International Control Commission in Vietnam exerts some deterrent force on possible Communist designs, Diem will probably continue a grudging and reluctant cooperation with that body. However, he will reject any efforts by the ICC to inject itself into the question of elections in Vietnam, even if his refusal should lead to the departure of the ICC from Vietnam.

51. The French have decided to withdraw the bulk of their forces from South Vietnam and to reduce their financial contributions to the Vietnamese government because of commitments in North Africa, popular sentiment in France, and Vietnamese pressures. While the French will continue to seek to salvage as much as possible of French commercial and cultural interests, we believe French interests and influence in South Vietnam will progressively decline during the period of this estimate. The French will probably continue to give no more than lip service to the implementation of the Geneva Agreements. In any case, they will attempt to avoid involvement of French forces in renewed hostilities or internal disorders. While the French government will give its verbal support to the Diem government, it will in fact cooperate with the latter and with the US in Vietnam only grudgingly.

52. India's principal objectives toward Vietnam will be dictated largely by its concern to prevent the outbreak of hostilities in the area. To effect this, India will attempt to implement the terms of the Geneva Agreements. This policy may lead India into conflicts with the Diem government and may lead India to propose the dissolution of the ICC in Vietnam. However, India's policy toward South Vietnam is likely to be moderated to the extent that Diem succeeds in establishing a strong and popular regime and replacing Ho Chi Minh as the symbol of nationalism in Vietnam.

53. Canada, though a member of the ICC along with India and Poland, has consistently supported US efforts to establish a strong anti-Communist government in the south and may be expected to continue to follow a policy generally parallel to that of the US in the area, even in the event of the break-up of the ICC. The UK, on the other hand, has had profound misgivings as to the strength of the Diem government and the wisdom of Diem's policies. Because of its position as co-chairman of the Geneva Conference on Indochina and because of its deep fears of a renewal of hostilities in the Indochina area, the UK has consistently urged upon Diem a technical compliance with the Geneva provisions. The UK will continue to press Diem to urge genuinely free elections in an effort to take the initiative away from the DRV and force it to accept the onus of rejecting adequate election guarantees. Indications are that if Diem continues to refuse even indirect consultations, the UK will probably not join in providing Diem with external protection should South Vietnam be attacked from the north.

VI. OUTLOOK FOR THE DIEM GOVERNMENT

54. Assuming Diem survives and provided he continues to receive wholehearted US support, we believe he will probably remain in office during the period of this estimate. Moreover, provided the Communists do not exercise their capabilities to attack across the 17th Parallel or to initiate large-scale guerrilla warfare in South Vietnam, Diem will probably make further progress in developing

a more effective government. His position will probably be strengthened as a result of increased popular support, the continued loyalty of the VNA, and a deterioration in the strength and cohesiveness of his non-Communist opposition. The national government will probably increase the number of rural communities under its control, particularly in areas now held by the sects. However, Diem will probably have advanced little beyond the preliminary stages in his social and economic reform programs. Moreover, should Diem for whatever reason be eliminated from the scene, a period of extreme political instability would almost certainly follow. Such circumstances might produce a successor more amenable to a rapprochement with the Viet Minh.

55. Viet Minh elements in South Vietnam will continue to control or influence remote areas and to hamper government action in the provinces. The Viet Minh capability to infiltrate personnel and arms into South Vietnam, and to reinforce Communist and potential dissident elements will remain the most serious threat to the establishment of a viable and stable national government in the south.